Strategic Budgeting

The District government has made important strides in financial management and significant improvement in service delivery during the past several years. Balanced budgets and clean, ontime Comprehensive Annual Financial Reports (CAFRs) are now the expected norm, even in difficult economic times.

As the District makes routine many of these activities, we continue to examine our business operations and seek to leverage our management reforms and other tools to improve the quality of the government and the services provided to residents, businesses, and visitors.

These reforms, ranging from very focused and targeted to having a global reach, affect everything from management training to reevaluating how each agency organizes its programs and provides services. There should be no illusions that any of these efforts are magic bullets that will turn the District's government into a world class organization overnight. However, they do help the District build on the Mayor's success in stabilizing basic program delivery and reforming management practices that were established during his first term in office.

Performance-Based Budgeting

Building on the District's successes, we are rethinking how the District articulates what functions it performs, funds them, and reports the results. Performance-based budgeting (PBB) is a budgeting process that links expenditures to the programs and activities they support instead of boxes on an organization chart. For example, pre-PBB the Department of Public Works funded the Sanitation division. Now the agency funds the actual service -- trash collection -- rather than an organizational unit. In addition, PBB allows performance to be measured. This lets public officials, program managers, and the public better monitor if a specific program is meeting anticipated goals from a fiscal and performance perspective.

Planned as a multi-year implementation, the first phase of the District's PBB efforts moved seven agencies to a new program budget structure (program/activity/service) that replaced the existing organizational budget structure (control center/responsibility center).

For the FY 2004 budget, an ambitious schedule was set to transition the remainder of the Mayor's cabinet - a total of 34 agencies, representing more than 80 percent of the District's

gross funds budget - to performance-based budgeting. Working last summer and fall, 27 PBB phase II agencies created their agency strategic business plans and a program/activity/service program structure. These plans incorporate an agency's mission, major initiatives, and short and long term goals with performance measures for the programs, activities, and services they provide. You will find all agencies associated with PBB phases I and II (chart 2-1) presented in PBB format in this year's FY 2004 Proposed Budget and Financial Plan.

Building on the momentum created by the success of the first two phases of PBB, the District will complete its implementation during the next two years. Future initiatives include transitioning the roughly 70 remaining agencies to PBB, using the Internet to provide greater transparency to the public regarding the PBB process, and developing a data collection manual to verify the performance measures and results

that agencies are beginning to measure and compile. The District is also working to benchmark key District activities against comparable jurisdictions around the country. Finally, we are exploring methods to tie all the budgeting and management reforms implemented in the District together. We refer to this effort as the transition from performance-based budgeting to performance-based management.

Integrating PBB into the District's Strategic Management Cycle

The District's Strategic Management Cycle represents the executive branch's management of agencies and programs to meet the goals and priorities determined by the Mayor and District Council, working with the citizens of the District. The strategic priority areas created out of the strategic management process are: 1) Strengthening Children, Youth, Families and Elders; 2) Building Sustainable Neighborhoods;

Chart 2-1
Performance-Based Budgeting Agencies

PBB Phase I (FY 2003)

AT0 Office of the Chief Financial Officer	KA0 Department of Transportation
KT0 Department of Public Works	KV0 Department of Motor Vehicles
FA0 Metropolitan Police Department	FB0 Fire and Emergency Medical Services Department
JA0 Department of Human Services	

PBB Phase II (FY 2004)

Government Operations

AA0 Office of the Mayor	AE0 Office of the City Administrator
AM0 Office of Property Management	BE0 D.C. Office of Personnel
CB0 Office of the Corporation Counsel	PO0 Office of Contracting and Procurement
TO0 Office of the Chief Technology Officer	

Economic Development / Public Works

BD0 Office of Planning	BI0 Office of Banking and Financial Institutions
CR0 Department of Consumer and Regulatory Affairs	CT0 Office of Cable Television and Telecommunications
DB0 Depart. of Housing & Community Development	EB0 Deputy Mayor for Economic Development
SR0 Department of Insurance and Securities Regulation	

Public Safety

BN0 DC Emergency Management Agency	FL0 Department of Corrections
FX0 Office of the Chief Medical Examiner	

Health and Human Services

BY0 D.C. Office on Aging	HA0 Department of Parks and Recreation
HC0 Department of Health	HM0 Office of Human Rights
RL0 Child and Family Services Agency	RM0 Department of Mental Health

Education and Employment

|	
BX0 Commission on the Arts and Humanities	CF0 Department of Employment Services
GA0 District of Columbia Public Schools	GD0 State Education Office

3) Promoting Economic Development; 4) Making Government Work; and 5) Enhancing Unity of Purpose and Democracy. You will find that every performance measure listed for an agency links to at least one of these strategic priority areas.

For more information regarding these five policy priorities, please visit www.neighborhoodaction.dc.gov/neighborhoodact/lib/neighborhoodact/stratplan.pdf

Strategic Management Cycle
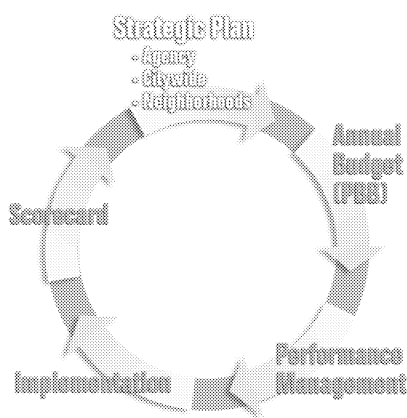
To become an effective component within the Strategic Management Cycle (chart 2-2), PBB aligns with the District's strategic planning processes, both at the District-wide and agency level. Together with the Office of the City Administrator and the Office of Neighborhood Action, the agencies implementing PBB develop strategic business plans that are linked to the city-wide strategic plan and strategic neighborhood action plans (SNAPS). Chart 2-3 illustrates how the planning processes are integrated and linked to the budget presentation. Chart 2-4 on the next page shows how the results of this planning integration are reflected in the documents supporting the FY 2004 budget process.

The District's implementation of PBB includes a concerted effort to align agency goals and key performance measures with the District's citywide strategic plan. More information regarding this is available at www.neighborhoodaction.dc.gov. For example, rather than reporting only the number of vehicles ticketed or streets cleaned, the Department of Public Works has the higher strategic goal of delivering 94 percent of its services in a timely manner. That goal, however, does not exist in a vacuum. It is tied to the broader citywide priority area of "making
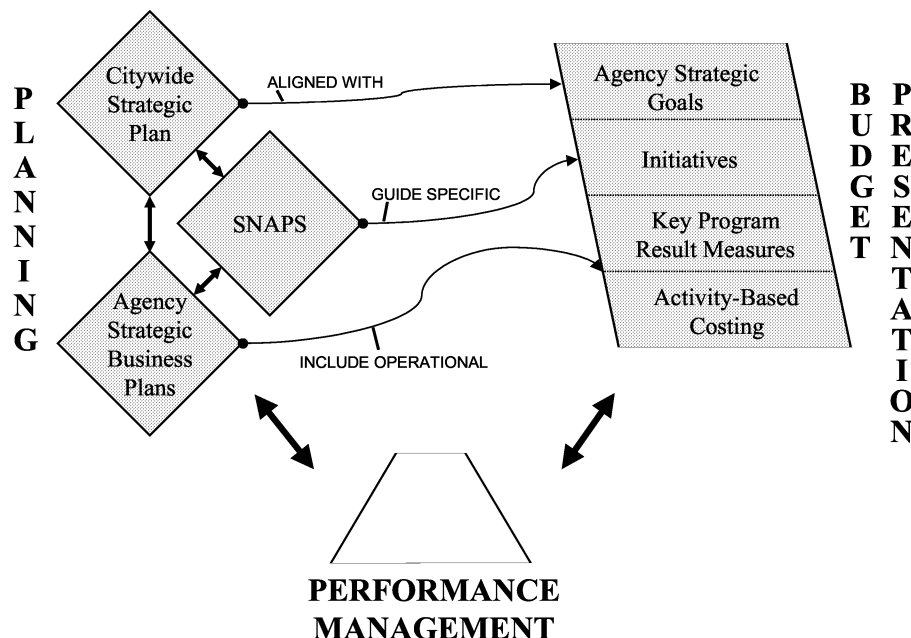
Planning Integration

Chart 2-4

Aligning the Citywide, Budget, and Agency Plans

government work" and its goal of delivering "all city services in a thorough, timely and efficient manner."

In addition to integrating with the District planning process, PBB serves to structure the District's performance management activities. These include agency scorecards, director performance contracts, and performance evaluations associated with the management supervisory service (MSS) program and the employee performance management program (PMP). Chart 2-5 illustrates the relationships between these activities. The linchpin for this alignment is the agency's strategic business plan. The business plan includes key elements that translate directly to the performance matrices reflected in the FY 2004 proposed budget, the District-wide strategic plan and director performance contracts. For example, performance targets for medical services response time are reflected in the citywide strategic plan in the "Making Government Work" priority, the Fire Chief's performance contract and the Fire and Emergency Medical Services Department chapter in this budget book.

For the agencies moving to PBB, strategic business plans are developed during the summer and fall prior to their implementation on October 1st of the next year. Elements of these plans are presented in the agency budget chapter narrative including the mission statement, strategic result goals and key program results. Chart 2-6 at the end of this chapter, as well as the Glossary of Budget Terms in the back of this budget document, provides definitions for key PBB terms.

Strategic result goals articulate the priority areas for the agency to make program decisions during the next two to three years. The agency will begin various initiatives in the current year to progress toward the strategic result goals. Key program result measures represent the performance measures that an agency uses to demonstrate the annual success of a program. In many cases, meeting key program result performance targets will demonstrate progress towards a specific agency strategic result goal. In short, key program result measures show what will be accomplished with the proposed funding level. In addition to key program result measures, each activity within a program has performance measures associated with output, demand, and efficiency categories.

These performance measures were developed for the program/activity structure during the business planning process. The program/activity structure in the business plan is the result of an effort to align all the agency's resources appropriately to achieve the strategic goals of the agency. In the past, agency resources typically were aligned with organization units that did not represent distinct programs. While prior year data is available for performance measures in non-PBB agencies, prior year performance data is unavailable for PBB agencies because their performance information is newly created. These measures are depicted in the agency business plan for each activity.

Chart 2-5
Performance Integration

PBB's Impact on Budget Development and Budget Execution
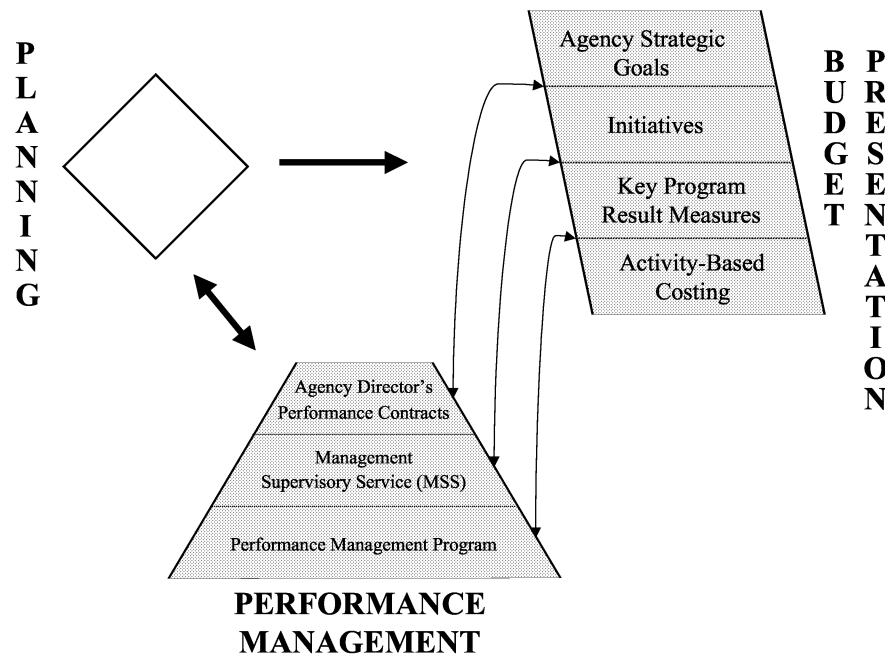
See the *How to Read the Budget* chapter for a description of all the elements included in the agency budget chapter. Additionally, the implementation of PBB will be integrated into the District's performance management program (PMP). The PMP represents a significant step forward in the employee and supervisor evaluation process for Management Supervisory Service (MSS), Excepted Service, and non-union Career Service employees. Additional information about the PMP is available from the D.C. Office of Personnel at www.dcop.dc.gov.

PBB's Impact on Budget Development and Budget Execution

Moving to PBB will blur the lines that clearly mark the beginning (distribution of the budget manual) and ending of the budget development period (Council adoption of the budget). PBB will shift the focus to a continuous process of planning, budgeting and evaluating programs. By integrating planning activities in advance of the budget process and program performance after budget adoption, the planning, financial management, and performance evaluation functions tie together to become an effective agency

management tool that also drives the budgeting process.

The technical elements of budgeting, such as estimating revenues, projecting personnel costs, accounting for inflation, do not change within a PBB environment. However in the coming years, as the PBB implementation matures with performance data collection and reporting processes, the budget development process will shift its focus from technical budgeting to describing program costs and program results.

Performance-based budgeting also will impact budget execution. Because an agency's new program structure aligns agency resources to the work the agency performs, agency spending is shown more clearly, allowing policy makers to know exactly how an agency is spending its allotted dollars.

In the current environment of shrinking tax revenues, the Mayor and Council can use the program structure to make policy decisions about where to allocate any additional resources or to cut spending. The idea of targeted reductions based on policy priorities is not rocket science. However, if there are no structures in place

that show the work performed, cuts are often made across the board or at the agency level without knowing what programs will be affected. It is much better policy to target specific service areas to be cut rather than to simply make cuts across broad budget areas. Performance structures allow elected officials to do just that.

Agency Management Program

An additional benefit of the new program structure is the ability to track specific expenses across agencies. For FY 2004, the Agency Management Program (AMP) was developed by the Office of the City Administrator (OCA) in conjunction with the Office of Budget and Planning (OBP) for those agencies that have transferred to performance-based budgeting to track costs for common administrative expenses. The PBB agency strategic business plans include the AMP with up to 13 standard activities in the program, depending on whether or not the agency performs that function. These activities are:

Personnel - to provide human resources services to department management so they can hire, manage, and retain a qualified and diverse workforce.

Training and Employee Development - to provide training and career development services to department staff so they can maintain/increase their qualifications and skills.

Labor Management Partnership - to create a structure in which agencies can proactively and collaboratively resolve workplace issues.

Contracting and Procurement - to provide contracts management, purchasing, and technical assistance to department management and staff so they can obtain the services and commodities they need within budget, on time, and according to customer specifications.

Property Management - to provide real estate and facility services to agencies to meet their real estate/facility needs so they can meet their programmatic goals to agency staff in a timely, efficient, and effective manner in keeping with current District operations, industry standards and best practices.

Information Technology - to provide network, telephone, and computer hardware and software support and information services to department man-

agement and staff so they can use technologies to produce, communicate, and manage information without undue delay.

Financial Services - to provide financial and budgetary information to department program/administrative units in order to ensure the appropriate collection/allocation, utilization and control of city resources.

Risk Management - to provide risk mitigation strategies and services to the agency and its employees so they can avoid exposure to risks and reduce the likelihood of injury and related costs.

Legal Services - to provide legal advice, review, and support to the agency staff so they can ensure that the services provided by the agency are consistent with D.C. and federal laws, rules, and regulations.

Fleet Management - to provide new and replacement vehicle and equipment services, requested repair services, preventive and preparatory equipment maintenance services, and fuel, lubricant, and parts services to the agency so the agency can have the appropriate equipment/vehicles required to deliver timely and efficient services.

Communications - to provide regular program communication services to the agency employees so they can have the knowledge and information they need to be effective in their jobs; and departmental information to the media, community associations, residents, and elected officials to increase public awareness of departmental programs, issues and challenges.

Customer Service - to implement the District's customer service standards so that customers can access and receive agency services in a satisfactory professional, responsible and timely manner.

Performance Management - to provide performance reporting and evaluation services to the Mayor, Council, Congress and the general public so they can assess the extent to which District agencies achieve their strategic goals and performance targets.

The AMP will bring consistency in budgeting and performance reporting for the District's administrative services and allow for more accurate tracking of administrative costs.

The Future of PBB

During the summer of 2003, the District will coordinate the third phase of performance-based budgeting by leading more agencies in strategic business planning. These agencies will develop a strategic business plan, including their new program and activity structure, agency strategic result goals, key result measures, and a suite of activity performance measures. Additionally, the first group of seven agencies, PBB phase I, will revisit their strategic business plans to make updates as needed. While performance measures should remain constant to provide historical information, agencies will have the opportunity to revisit and update their strategic goals. This may lead to updated or enhanced performance measures for their activities.

The remaining District agencies will complete the business planning process during 2004 while the agencies in PBB phase II will update their strategic business plans. This biennial update will continue as agencies hone their business plans. Once all agencies have made the transition to PBB, the District will be working toward a new level of performance integration - performance-based management.

Additional Strategic Budgeting Endeavors

While PBB is a critical component of the District's reform efforts, there are also related initiatives underway that serve to inform District policymakers, managers, and the public about the quality of services provided. Several of these initiatives are:

Benchmarking

With a constrained tax base and relatively flat revenue growth, it is imperative that the District not only provide quality services, but efficient ones as well. Tracking costs by the programs in the PBB agency strategic business plan will let the District perform cost and efficiency comparisons with other jurisdictions. Benchmarking is a comparison between District programs and other comparable governments (i.e., governments with roughly the same type of government function, demographics, geographical region, budget size, etc.) to assess similar environmental conditions, functional performance, and efficiency of work. In the first phase of the District's transition to PBB, several program benchmarks were developed and several others are presented in the budget this year. As we progress in the area of strategic budgeting, we plan to further benchmark critical District services. The Office of Budget and Planning will develop a rigorous methodology that meets all recognized best practices for benchmarking.

Data Integrity

Just as all financial data must be verified through audits, performance information, too, must be audited. To ensure the validity of performance measure results, agencies will be asked to develop a data collection methodology report that explains the parameters around which performance measures will be collected. These include the formula, if any, used to define the measure, the methodology used to collect data, the frequency of data reporting, and the person in the agency responsible for collecting the data. Once the collection manual is complete, the data will be audited to ensure accuracy of both the collection method as well as the data itself.

Related Endeavors

Additionally, several internal management improvement efforts are underway such as the Performance Management Program (PMP) www.dcop.dc.gov/services/perf_mgmt/mgmt_p rogram.shtm, the Management Supervisory Service (MSS) program www.dcop.dc.gov/ser- vices/mss/index.shtm, and the Administrative Services Modernization Project (ASMP), a District-wide business transformation project focused on improving administrative processes, systems, and policies in the District.

It is anticipated that these management improvement efforts will result in not only improved service delivery, but also greater efficiency. For example, the ASMP will result in process efficiencies - resulting in a decrease in the amount of fiscal resources directed to these administrative functions. These efficiencies will be reinvested to provide a greater level of service, additional programs or reduced taxes.

Key Challenges that Remain

Significant challenges remain that translate into exciting opportunities for change in the District of Columbia. These include: 1) fully operationalizing agency Strategic Business Plans, 2) linking agency strategic plans more closely to individual employee performance plans (PMP), and 3) devising and effectively implementing PBB training for agencies, MSS and the Center for Excellence in Municipal Management (CEMM) that fully integrate PBB language and processes throughout the government.

In Summary, we are changing how the District of Columbia structures, funds, and provides services to improve the equality of life for the citizens.

Chart 2-6
Key PBB Terms

Performance-Based Budgeting (PBB) - Refers to a budget system in which budget decisions are based on or informed by performance information that describes the cost or efficiency of producing an activity and the results achieved for customers. This system is accomplished by structuring the accounting and budgeting systems according to the structure of the agency's Strategic Business Plan.

Strategic Business Plan - A strategic business plan establishes and articulates the purpose, strategic goals, operational organization and performance expectations for an agency.

Mission - The mission is a clear, concise statement of the agency's purpose. The mission focuses on the broad, yet distinct, results the agency will achieve for its customers.

Strategic Goal - In strategic business planning, a strategic goal refers to goal statements that describe in measurable terms the significant results that an agency must accomplish over the next 2-5 years in order to proactively respond to critical trends, issues, and challenges.

Key Result Measures - A set of result performance measures that are contained within each program. They are comprised of one result measure from each of the activities within that program.

Performance Measures - Measures that describe the information managers and other decision-makers need in order to make good business decisions. There are four types of measures for PBB agencies: (1) results, (2) outputs, (3) demand, and (4) efficiency.

Program structure - The delineation of programs, activities, and services that constitute the work of an agency.

Program - A component part of the District's program structure. Comprised of a set of activities that have a common purpose or result.

Activity - A component part of the District's program structure. Comprised of a set of services grouped together around a common purpose or result.

Agency Management Program (AMP) - A program within an agency's strategic business plan structure under Performance-Based Budgeting. AMP is utilized to track costs associated with common administrative expenses across the District. Under AMP, these costs fall within thirteen activities:
(1) Personnel,
(2) Training and Employee Development,
(3) Labor Management Partnerships,
(4) Contracting and Procurement,
(5) Property Management,
(6) Information Technology,
(7) Financial Services,
(8) Risk Management,
(9) Legal Services,
(10) Fleet Management,
(11) Communications,
(12) Customer Service, and
(13) Performance Management.